GOVERNMENT OF INDIA
URBAN DEVELOPMENT AND POVERTY ALLEVATION
LOK SABHA

UNSTARRED QUESTION NO:137
ANSWERED ON:26.02.2002
RELEASE OF LOAN BY HUDCO TO PRIVATE BUILDERS
RAVINDRA KUMAR PANDEY

Will the Minister of URBAN DEVELOPMENT AND POVERTY ALLEVATION be pleased to state:

(a) whether the Housing and Urban Development CorporationLimited (HUDCO) had released a loan of Rs.7 crore to the private builders in 1997 in violation of the guidelines in this regard;

(b) if so, the guidelines issued in regard to the releasing of loan;

(c) the names of companies which were provided loans;

(d) the loss suffered by the Government due to this irregularity;

(e) whether the Government have taken any action against the guilty officers;

(f) if so, the details thereof; and

(g) if not, the reasons therefor and the time by which the action is likely to be taken against the guilty officers?

Answer

MINISTER OF STATE FOR URBAN DEVELOPMENT & POVERTY ALLEVIATION (SHRI BANDARU DATTATREYA)

(a)to(c): Housing & Urban Development Corporation Ltd.(HUDCO) had sanctioned a working capital loan of Rs.7 crore to a Private Builder, M/s Premier Housing and Industrial Enterprises Limited undershort-term line of credit scheme in 1997 and the loan was released in March, 1998 against bank guarantee from M/s Global Trust Bank. A copy of the guidelines for short term line of credit, as approved by HUDCO Board is enclosed at Annexure.

(d): Comptroller and Auditor General had pointed out that due to limited liability clause introduced by the Global Trust Bank in Bank Guarantee, the Bank limited its liability to principal only. This resulted in loss of interest amount of Rs.1.90 crore on the sanctioned loan. HUDCO has however, filedapplication before Debt Recovery Tribunal (DRT), Chennai forrecovery of dues over and above the bank guarantee. Since the case is sub-judice, there is no loss as such at this stage.

(e)to(g): HUDCO has initiated proceedings for major/minor penalty against the guilty officers.

ANNEXURE

ANNEXURE REFERRED TO IN REPLY TO PART (a) TO (c) OF LOK SABHA UNSTARRED QUESTION NO. 137 FOR 26.02.2002.

GUIDELINES FOR SHORT TERM LINE OF CREDIT FOR VARIOUS HOUSING AND INFRASTRUCTURE AGENCIES THAN THE HUDCO REGULAR BORROWER.

The above guidelines were placed before the Board in its 239th meeting held on 29.9.1997 vide Item No. 239.2.7. The Board after consideration approved the proposal and authorised the group consisting of Director Finance, Shri B Danam, Director HUDCO and Director (Corporate Planning) to finalise the guidelines.

The group constituted by the Board met on 14.10.97 at New Delhi.After detailed discussion, the group decided to make the following additions/modifications in the guidelines:-

1. To open of Escrow Account by the borrower.

2. Right to inspect the works/books of the accounts for the proper utilisation of line of credit.

3. Provision for recall of loan, in case of any misrepresentation/supression of information subsequently noticed.

4. The regular housing and Urban Infrastructure schemes of HUDCO of the borrowing agencies should not suffer.

5. The scheme will be called as Short Term Line of Credit for agencies who are not regular borrowers of HUDCO.

6. The line of credit is restricted only to Govt. agencies/corporate entities both Public and Private. The group further decided to revise the guidelines incorporating the amendments and put up to the Board for information.

Based on the above decision of the Sub-group, the guidelines have been modified and are placed at Appendix.

APPENDIX

GUIDELINES FOR SHORT-TERM LINE OF CREDID FOR VARIOUS HOUSING AND INFRASTRUCTURE AGENCIES THAN THE HUDCO REGULAR BORROWER.

OBJECTIVE: Over the decades, the housing scenario presents a dismal picture. The living conditions of the people needs substential improvement. Provision of shelter together with supporting infrastructural services ccontinues to be one of the burning issues of the day. The cost of land and building materials are soaring high, taking housing beyond the reach of the common man.

HUDCOhas emerged a s the leading mational techno-financing institution with the major objective of financing/encouraging the housing and urban infrastructure activity in the country and alleviating housing shortage of all groups i n rural and urban areas with emphasis to cater to the needs of the low income groups and also the development of infrastructure in human settlements. The financial assistance being provided by HUDCO is primarily to borrowing agenciesin Government Sector such a s Housing Boards, Development Authorities, Municipal Corporations, etc.

The present competitive environment requires that the availability of financial assistance to borrowers needs to be broad based so that all kinds of housing and urban development needs are fulfilled. With these objectives in view, HUDCO has decided to extend short term Line of Credit to borrowers, who have not availed loans from it so far, for financing projects in housing and infrastructure sector.

ELIGIBILITY:

(a) Govt. Agencies/Public or Private Corporate Sector agencies who are not regular borrower of HUDCO.

(b) The Borrower shall ensure that it is competent under its constitution or the law governing it, to raise finance for funding housing and infrastructure schemes. The loan application shall be accompanied by a resolution of Board of Directors/Executive Body authorising the proposed borrowing from HUDCO.

ELIGIBILE SCHEMES:

The financial assistance would be available for schemes in the Housing and Infrastructure Sector as per details given below:

(a) Housing:

- Urban Housing
- Rural Housing
- Staff Rental Housing
- Cooperative Housing
- Housing Schemes through NGO`s
- Housing through Private Builders

(b) Urban Infrastructure:

- Water Supply
- Sewerage and Drainage
- Solid Waste Management
- Ecologically Appropriate Infrastructure Projects
- Social Infrastructure
- Integrated Area Development Schemes
- Commercial Projects
- Transportation Projects in urban areas

4. TERMS OF FINANCING:

(a) Loan upto a maximum of 50 per cent of the paid-up Capital of the borrower or Rs.10 crores whichever is less.

(b) Interest and Front End Fees

(i) The interest rate applicable would be 18% (Net).

(ii) Interest tax @ 2% of interest shall also be payable by the borrower along with principal and interest on the due dates.

(iii) The borrower must pay the Corporation, interest on loan amount calculated on each instalment from the date of release. The interest will be due and payable quarterly on the 31st March, 30th June, 30th Septemberand 31st December each year, the first instalment of interest (for a proportionate period, if necessary) being due and payable on the due date immediately following the date of first disbursement against the loan.

(iv) In the event of default in the repayment of loan instalment and/or interest on the due dates, penal interest at the rate of 2.50% over and above normal gross rate of interest (including loss of rebate of 0.50%) will be payable on total overdue amount till the time of payment of due amounts. Till clearance of entire default, gross interest rate will be charged on total loan outstanding.

(v) HUDCO reserves the right to vary the interest rate on theentire loan or a part thereof yet to be released depending upon its actual borrowing rate prevailing at the time of release of such amount, by giving prior written notice to the borrower of such variation.

(vi) The borrower shall have to pay a one time front-end-fee of 0.75% of the sanctioned loan immediately on receipt of the Letter of Sanction through demand draft payable to HUDCO. This will not be recovered from the loan disbursed to borrower.

(vii) The borrowing agency will open an Escrow Account in which the dedicated inflow shall be made towards the repayment of principal and interest. The release of loan will also be routed through the Escrow Account only.

(viii) HUDCO reserves the right to inspect the works of the borrowing agencies at any time and also the books of accounts relating to the particular project to ascertain the end utilisation of line of credit.

(c) Repayment period:

Upto 2 years without any moratorium and repayment of principal to be made in maximum 8 equal quarterly instalments and interest to be paid on quarterly basis.

(d) Security:

(i) The loan can be secured by an unconditional and irrevocable Bank Guarantee from a Scheduled Bank acceptable to HUDCO. Borrowers must also ensure that the Bank is willing to give the guarantee in HUDCO`s prescribed format.

(ii) Post dated cheques for repayment of interest and instalments of the entire loan as per the repayment schedule.

5. Purpose of Loan:

The Borrower will be allowed to utilise the loan amount for Housing and Urban Infrastructure Schemes.

6. FINANCIAL POSITION:

(a) The borrower shall furnish its Audited Annual Accounts for the last 3 years along with audit reports. The track record of borrower on repayment of loans should be clearly brought out.

(b) The borrower should not be in default in respect of payment of principal and interest dues etc in respect of its borrowings as on the date of filing the loan application.

(c) The borrower shall also furnish copies of financial statements and Income Tax Returns of last three years of its Directors and Promoters.

(d) HUDCO reserved the right to recall of loan, in case of any misrepresentation/suppression of information subsequently noticed.

7. APPLICATION FORM:

Loan application in the proforma enclosed sent to HUDCO shouldbe accompanied with a Bank Draft of Rs.10,000/-towards documentation charges (non refundable).

4.4 Guidelines for short term line of credit for various housing and infrastructure agencies other than the HUDCOregular Borrower (Date of Board Meeting - 21.10.1997)

A copy of the minutes of the meeting of the Sub-Group constituted by the Board held on 14.10.1997 were circulated in the meeting. Shri J.P. Murty was of the opinion that when a non-borrower comes to HUDCO for any borrowing the pastrecords of such borrower should be checked thoroughly meaning thereby that the track-record of the agency from the lending agency be verified from whom the non-borrowing agency had been taking any facility in the past.

It was also felt that the terms and conditions of the Bank Guarantee should enable HUDCO to encash the Bank Guarantee without any intervention by the court.

After deliberations, the Board approved the guidelines as circulated and decided that the grant of working capital loans be limited upto Rs.100 crores in the financial year. The Board further decided to ensure that the grant of working capital loans will not affect the regular housing and Urban Infrastructure schemes of HUDCO, do not suffer.